

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

|  |   |            |
|--|---|------------|
| APPLICATION OF SHELBY ENERGY           | ) |            |
| COOPERATIVE, INC. FOR A CERTIFICATE OF | ) | CASE NO.   |
| PUBLIC CONVENIENCE AND NECESSITY FOR   | ) | 2010-00244 |
| ITS 2010-2014 CONSTRUCTION WORK PLAN   | ) |            |

THIRD INFORMATION REQUEST OF COMMISSION STAFF TO  
SHELBY ENERGY COOPERATIVE, INC.

Pursuant to 807 KAR 5:001, Shelby Energy Cooperative, Inc. ("Shelby Energy") is to file with the Commission the original and seven copies of the following information, with a copy to all parties of record. The information requested herein is due no later than Friday, January 21, 2011. Responses to requests for information shall be appropriately bound, tabbed and indexed. Each response shall include the name of the witness responsible for responding to the questions related to the information provided.

Each response shall be answered under oath or, for representatives of a public or private corporation or a partnership or association or a governmental agency, be accompanied by a signed certification of the preparer or person supervising the preparation of the response on behalf of the entity that the response is true and accurate to the best of that person's knowledge, information, and belief formed after a reasonable inquiry.

Shelby Energy shall make timely amendment to any prior response if it obtains information which indicates that the response was incorrect when made or, though correct when made, is now incorrect in any material respect. For any request to which

Shelby Energy fails or refuses to furnish all or part of the requested information, Shelby Energy shall provide a written explanation of the specific grounds for its failure to completely and precisely respond.

Careful attention should be given to copied material to ensure that it is legible. When the requested information has been previously provided in this proceeding in the requested format, reference may be made to the specific location of that information in responding to this request. When applicable, the requested information shall be separately provided for total company operations and jurisdictional operations.

1. Refer to the public comments filed in this matter on December 2, 2010 by Dr. Carlen Pippen, a copy of which is appended hereto.

a. Provide a copy of the grant announcement for the \$264,000 grant from the Kentucky Department of Energy Development and Independence ("DEDI grant") referenced on page number 1 of the public comments, and about which Shelby Energy's CEO, Debbie Martin, testified at the June 2, 2010 hearing in Case No. 2009-00410.<sup>1</sup> If not included in the announcement, provide a list of all of the grant requirements.

b. Provide a copy of all documents prepared by Shelby Energy in contemplation of applying for the DEDI grant, including all communications between Shelby Energy and the Rural Utility Service (RUS).

c. Provide a copy of all documents relating to the analysis Shelby Energy performed in determining that the costs of the record keeping and reporting

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<sup>1</sup> Case No. 2009-00410, Application of Shelby Energy Cooperative, Inc. for an Adjustment of Rates (Ky. PSC Jul. 27, 2010).

requirements of the DEDI grant did not justify the benefits of accepting the DEDI grant, as discussed in response to question 3 of the "Member's Information Request" dated September 16, 2010 at page 11 of the public comments.

d. Explain in detail the analysis Shelby Energy performed to determine that the costs of hiring a consultant to handle the record keeping and reporting requirements of the DEDI grant would be more than the \$264,000 amount of the grant.

e. Explain in detail whether it would have been feasible for a Shelby Energy employee to perform the record keeping and reporting requirements of the DEDI grant.

2. When did Shelby Energy complete the preparation of its 2010-2014 work plan, and when did it file the 2010-2014 work plan with RUS?

3. Provide the specific beginning and ending dates for the 2010-2014 work plan, i.e., January 1, 2010 through December 31, 2014, or another date range.

4. Provide the specific beginning and ending dates for Shelby Energy's previous work plan.

5. Did Shelby Energy begin any of the construction outlined in the 2010-2014 work plan prior to filing the application in this matter on July 23, 2010? If yes, provide a schedule showing all projects constructed beginning in 2010 and all expenditures for those construction projects to date.

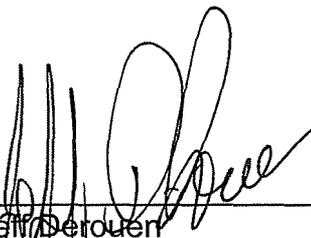
6. Has Shelby Energy begun construction on any of the projects included in the 2010-2014 work plan since filing the application in this matter on July 23, 2010? If yes, provide a schedule showing all projects constructed and all expenditures for those

construction projects to date.

7. Provide the date that Shelby Energy began installation of AMI meters.

8. Refer to the letter dated February 18, 2010 from Charles Philpot of RUS to Debbie Martin, which is attached as an exhibit to the application in this matter and was tendered for filing to the Commission on July 23, 2010. Explain in detail why Shelby Energy waited five months after receiving final approval from RUS to file its application with the Commission in this case.

9. In response to item 1.e. of Commission Staff's Second Information Request, Shelby Energy provided a revised breakeven analysis, Exhibit B. Provide revised Exhibit B in the electronic format of an Excel spreadsheet with the formulas intact.



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Jeff Derouen  
Executive Director  
Public Service Commission  
P.O. Box 615  
Frankfort, KY 40602

DATED: JAN 14 2011

cc: Parties of Record

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE  
COMMISSION IN CASE NO. 2010-00244 DATED JAN 14 2011

Rick Bertelson, Legal Department  
and  
Consumer Services Division  
and  
PSC Commission  
Post Office Box 615  
Frankfort, Kentucky 40602

November 30, 2010

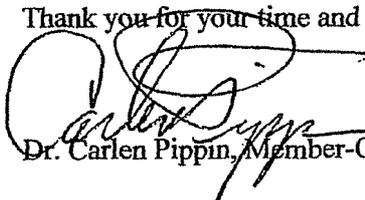
To Whom It May Concern:

Enclosed you will find a copy of the renewed complaint to PSC concerning Shelby Energy Cooperative, Inc. This complaint was filed initially online on September 1<sup>st</sup>, 2010. After no reply, other than the electronic confirmation received via email, I contacted PSC again in October. Upon the advice of Matt Rhody, the complaint was resubmitted the 13<sup>th</sup> of October. After that submission, your legal department advised that a submission into the public record in the active cases might better serve my client's interest.

After trying to do that just now electronically, I discovered that I am limited to 256 characters. Also no attachments can be included. As such, I am enclosing the following documents to be processed by your clerks; renewed complaint/public comments, member information requests for August 19<sup>th</sup> and September 16<sup>th</sup> as well as a newspaper article from the Shelby Sentential.

Please file these both as a member-customer complaint as well as public comments in both the 2010-00244 and 2010-00331 cases before your Commission. The following information is required by your electronic forms: Dr. Carlen Pippin 1556 Vigo Road, Shelbyville, Kentucky 40065. Cellphone is 502-321-0221. I have contacted the Cooperative several times concerning these issues. My email address is [cpippin@shelbywireless.net](mailto:cpippin@shelbywireless.net). A copy of this letter and packet are being forwarded to the Attorney General's Office as well. Please reply with appropriate confirmation.

Thank you for your time and efforts,

  
Dr. Carlen Pippin, Member-Customer of Shelby Energy Cooperative

**RENEWED COMPLAINT AND PUBLIC COMMENTS**  
**TO KENTUCKY PUBLIC SERVICE COMMISSION**  
**CONCERNING ACTIVE CASES 2010-00331 AND 2010-00244**

**cc: ATTORNEY GENERAL OF KENTUCKY**

After filing a complaint on September 1<sup>st</sup>, 2010 with the PSC, I was advised that I might file public comments in the above-styled cases. After reviewing the ongoing cases before your organization, I have decided to instead renew my complaint and to send it to the Attorney General's Office as well. I have three areas of major concern that affect each and every member-customer of Shelby Energy.

My first area of concern is the **conflict between the answers** Shelby energy gives both to your Commission under oath and to the Member-Customers in reply to their written questions and what actually occurs. I have numerous examples of these discrepancies to follow. Each example is supported by documents; each example costs the member-customer money. First, Debbie Martin (CEO) testified at the June 2<sup>d</sup>, 2010 hearing before your Commission that she had filed an amendment to the 2005-2009 current work plan in order to include the "AMI" project. She testified that had been done six weeks earlier. (6/2/2010 Hearing at 10:26:46 am). As you know, your Order stated that Ms. Martin "had not filed an amendment and had not filed a new work plan." (7/27/2010 PSC Order, Page 15 and 16).

On the same topic of AMI metering, Ms. Martin testified before your Commission that paperwork for the \$264,000.00 grant from the Department from Energy Development and Independence was being completed. (6/2/2010 Hearing at 10:25:35 am). When asked by be the member-customers on September 16<sup>th</sup>, 2010 why the grant was refused by Shelby Energy, Ms. Martin replied that, "...we do not have the staff resources to meet the grant's reporting, monitoring and tracking requirements." (Response to Question 3, Member's Information Request 9/16/2010).

Further inconsistent replies have been made to us concerning the funding of this smart meter project. For example, Ms. Martin testified before the PSC in June that loans would be utilized to fund the planned upgrade. Member-customers and the Sentinel News were told however, in a special meeting, that no loaned funds were being used. (Response to Question 3, Member's Information Request 8/19/2010 and 9/17/2010 article in the Shelby County Sentinel Newspaper, by Todd Martin).

These inconsistent replies lead to our next concern, which is the ongoing **fiscal irresponsibility** that Shelby Energy continues to display. By failing to follow regulations and by expending funds in inappropriate ways, Shelby Energy continues to ignore economic reality. The Cooperative's member-customer however cannot ignore the recent rate hike of 10-12% (for many residential customers) and the 4-5% pass through from Eastern Kentucky Power in April 2010. Before your Commission approves further pass through rates from EKPC, perhaps you will consider the potential impact of better fiscal management at the local level.

At the December 19<sup>th</sup>, 2009 Board of Directors Meeting, the purchase of the AMI project was approved. No amendment was filed to support that project, no Certificate of Public Convenience and Necessity was tendered to PSC concerning this 3.1 million dollar expenditure. In fact, Ms. Martin testified to your Committee that she did not know the cost of a meter. (6/2/2010 Hearing at 10:26 am). She also later asserted that it was the fault of the RUS Representative (not her own counsel) that proper protocol was not followed concerning this large capital investment. She asserted that the expenditure \$3.1 million dollars of member-customers funds did not require a Certificate for Public Convenience and Necessity. (Response to Question 3, Member's Information Request 8/19/2010).

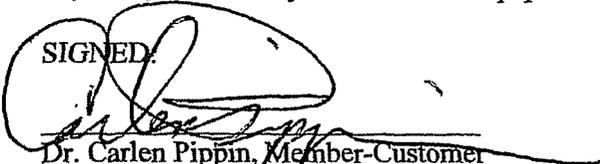
Your Commission itself has cautioned Shelby Energy recently on this topic. In your Orders, you denied several expenditures of the Board and CEO as inappropriate. (7/27/2010 PSC Order, Pages 8 -9). Shelby Energy's failure to file proper documentation has cost the member-customers money in unnecessary legal fees, consultant fees, and staff time. Review and correction by this Commission cost every taxpayer in Kentucky money. Ms. Martin and her Board's lack of knowhow are very costly, but how much is being spent to correct unnecessary mistakes is unknown to those who ultimately have to pay the bills.

The member-customers are also concerned about the lack of transparency within Shelby Energy. Conflicting testimony and carefree spending have caused the member-customer question the credibility and accountability of their Cooperative's leadership. Shelby Energy continues to disregard the competitive bidding process for items such as remodeling, heating and air maintenance and vehicle purchases. Costs for office makeover have thus far totaled \$213,213.51. When considered along with Ms. Martin and her Board's joint decision to award favored employees with year-end gifts totaling \$12,750.00., the average member-customer is left wondering how this behavior can be curbed.

Albert Einstein's definition of insanity seems appropriate in closing; "doing the same thing over and over again and expecting different results." The same Board of Director, same CEO and the same counsel for the Board have given you the same excuses for the last year. While these are certainly not exhaustive examples, I hope they will provoke this Commission and the Attorney General to greater diligence. The enforcement powers of your organizations are the member-customers main avenue towards greater accountability and transparency within their Cooperative. SIGNED - Dr. Carlen Pippin 1556 Vigo Road, Shelbyville, KY 40065

DOCUMENTS ATTACHED: Member Information Requests of August 19, 2010 and September 16, 2010, Two Shelby Sentential Newspaper Articles and one Letter to the Editor.

SIGNED

  
Dr. Carlen Pippin, Member-Customer

11/30/2010  
DATE

## Member's Information Request

Dated: August 19, 2010

### Question 1:

What was the total amount spent for office remodeling, including furniture during 2008, 2009 and what was budgeted to be spent in 2010?

Responses: Not Good Timing

The following are the total amounts spent for repairs, office renovations and furnishings:

2008 - \$38,533.98

2009 - \$48,723.53

2010 - \$99,611.48—through 08/27/10

The total 2010 budget for repairs, renovations and furnishings was

The office of Shelby Energy was constructed almost 50 years ago. The lower level of the building has not been remodeled in many years. It has been over 30 years since we replaced the flooring. Desk drawers would not open and close properly, legs fell off and the chairs were worn out. In addition, carpet in the lower office was severely stained and worn from the heavy traffic of contractors and construction employees. The break room carpet smelled musty because of constant dampness. Significant mold was found spread over the entire floor surface beneath the carpet when it was pulled up. That was not healthy for our employees.

The renovation permits operations, engineering, and safety employees to be located on the same floor. It promotes better communications and efficiency between three areas that have a direct relationship to the safety and daily functions of employees in the field.

The PSC Management Audit recommended an improved dispatching system be implemented with an estimated cost of \$250,000. To comply with this recommendation, an improved dispatching station was needed that provided space for the equipment necessary to monitor SCADA, view the CRCLink software reporting outage calls, observe the vehicle location system, watch weather conditions and other programs that assist with knowing the location of crews, mapping of areas without service, local weather and provide an overall safe environment for all employees while restoring service during a major outage. The management and employees of Shelby Energy have been very frugal in implementing this recommendation. Our costs are far below those estimated by the auditors. Yet, results comply with the recommendation and provide the resources to offer improved and safer dispatching.

In 2008, following armed robberies that took place at three different locations nearby the cooperative office in Shelbyville, security enclosures were installed at each office, along with the installation of an updated security system, to prevent unauthorized entry into the building or onto the cooperative property. Copper wire theft directly from the cooperative headquarters property and destruction of perimeter fencing was another area of security that the system assisted in controlling. Security cameras are an effective deterrent. Our employees can be assured only those authorized are in the building or on the property.

## Member's Information Request

Dated: August 19, 2010

In addition, the aging buildings have required repairs to warehouse and garage walls that have shifted, concrete that has deteriorated, water lines that have ranged from minor to somewhat significant, lights that must be replaced or improved and outdated electrical service. Changes in service and technology required establishing a protected information technology area, building a garage to hold bigger construction vehicles, providing emergency restoration plans, equipment and alternate sites, along with others areas of maintenance and improvements. Our buildings require the same upkeep as any other buildings.

We have not listed every single repair or improvement made from 2008~2010 here, but the costs listed are accurate and all were reasonable and handled in a conservative manner by responsible employees.

The Cooperative has an obligation to provide safe, healthy, and up-to-date work facilities for all of our employees. Shelby Energy provides this level of standard for the vehicles, equipment and tools used by employees in the field and cannot provide less for those employees working in the office.

Monthly cost per member (15,290) @ 15 years of value = .07147 cents

### Question 2:

How much does each "smart meter" cost and what is the average installation cost for each?  
How many have been purchased to date and when was the purchase contract signed?  
What is the considered time span needed for payback in cost savings to the members/  
customers?

### Response:

a.

The cost for each type of AMI meter and the installation costs are as follows:

|  |          |
|--|----------|
| Cost of single phase meter! up to 400 amps | \$98, 56 |
| Cost of single phase meter / over 400 amps | \$132.00 |
| Installation cost                          | \$13.27  |

|                           |          |
|---------------------------|----------|
| Cost of three phase meter | \$450.00 |
| Installation cost         | \$118.85 |

b.

As of today, 4,650 AMI meters have been received and the purchase orders for the meters were submitted in March, 2010

c.

The time span needed for payback of the AMI project is between 5-6 years. The largest component contributing to payback is the savings on the cost of meter reading services.

## Member's Information Request

Dated: August 19, 2010

### Question 3:

What is the excuse for NOT getting a "certificate of Public Convenience and Necessity" from the PSC which is required before proceeding with any capital investment of member customers money; SUCH AS 3.1 MILLION DOLLARS FOR "SMART METERS"?

Response:

a.

It was our intention to include this matter in our recent application for approval of our next five-year work plan; however the consulting engineer, who prepared the attachments, was working consistent with the instructions given by the RUS representative. The RUS Representative stated the filing with PSC was not necessary, and therefore it was not included. Contrary to the assumption in this question, a CPCN for the AMI meter project would not be required from P5G.

Our attorney has advised us there has been a long-standing informal rule at P50 that a CPCN will not be required where the total project construction is 10% or less of existing plant value, as long as money is not being borrowed to pay for the project. This is the case with the AMI project. Therefore no law was broken. SEC normally does not rely on this informal rule, however, since we prefer to be completely upfront with our business with the PSC, we have filed an amendment with the work plan stating the intentions to install an AMI system.

Additionally, P50 has, in recent years, been actively promoting installation of AMI meter technology by electric utilities due to the long-term cost savings, enhanced quality of service, and increased safety resulting from a AMI meter system. This is very obvious in the report, ike and ice issued by the P50 on November 19, 2009 that technological changes are expected by utilities to better report and restore power outages along with enhancing reliability. The AMI meter system will do just this for Shelby Energy members. These advantages were extensively discussed at the March 18, 2010 board meeting attended by Dr. Carlin Pippin, Ms. Sarah Jane Rankin, and Magistrate Betty Curtsinger. SEC's smart meter capital investment is entirely consistent with P80's policy on this matter.

### Question 4:

What was the total amount given as end of year gifts for year ending 2009? Are there any gifts in the budget for year ending in 2010?

Responses:

a.

The term "gift" is not applicable in the traditional sense for this situation. The total amount paid at the end of 2009 to non-bargaining unit employees was \$12,750. This amount was based on two additional days of leave permitted to bargaining unit employees, a higher rate of pay provided bargaining-unit employees for regular hours of work during the ice storm in January, 2009 and expense allowances for bargaining unit employees in regards to apparel, tools and accessories that were not provided to non-bargaining unit employees in 2009.

## Member's Information Request

Dated: August 19, 2010

Management considered two days of pay plus benefits for each non-management, non-bargaining unit employee to average \$750. The additional value of the ice storm pay and apparel, tool and accessory benefit was calculated to be approximately \$250. Management recommended to the Board for consideration of payment to each non-management, non-bargaining unit employee of \$1,000 and \$750 was approved by the Board.

b.

There were no funds budgeted in 2010 for this type of situation nor have any extraordinary events occurred that would warrant such.

### Question 5:

Are copies of the 990 report for the last 5 years available to members? So, requested.

Response:

a.

The last 5 years of the IRS Form 990 are available on the website of Shelby Energy at [www.shelbyenergy.com](http://www.shelbyenergy.com) and may be viewed and/or printed by any interested parties. Prior to posting on the website, and consistent with federal law, the Form 990's were available for inspection at the Cooperative office by the public.

### Question 6:

Will there be any consideration in the near foreseeable future given to changing the bylaws to prohibit proxy votes and to forbid any elected official from serving as a Director similar to the bylaws of Clark Energy and many other Cooperatives?

Response:

The board of directors began considering changes to the bylaws regarding the method of director elections prior to the most recent director elections but decided against any changes just prior to the Annual Meeting to avoid any appearance of an effort to affect the result of the elections. Several issues were being discussed; mail ballots, board of director qualifications, board of director education requirements along with a possible application process. The board of directors has the benefit of evaluating the bylaws of many different electrical cooperatives to evaluate whether the Shelby Energy bylaws are consistent to other member-owned cooperatives.

Shelby Energy has no plans to forbid elected officials to serve as a member of the Board. The Cooperative has found officials who have served on the Board, in the past and present, are well-informed, knowledgeable and valuable citizens within the community they serve and provide outstanding and dedicated service to our membership.

## Member's Information Request

Dated: August 19, 2010

### Question: 7

Why is the annual membership meeting not rotated among the 3 districts? Will it be rotated to Shelby or Trimble County next year?

Responses:

a.

The annual meeting of the members has been rotated among the three districts for many years.

b.

The cooperative has had scheduling difficulties in the past and made a decision, just this year, to hold it in Henry County at the Henry County High School for the future. This location provides a central location for all members.

### Question 8:

You reported for the calendar year 2009 on form 990 that the salaries, other compensation employee benefits expense was 3,271,442 dollars and for the previous year it was 2,166,903 dollars—an increase of 1,104,531 dollars. How do you account for this difference?

Response:

Attached is a response from the cooperative's CPA, Alan Zumstein, and a revised Form 990 as filed with the IRS.

### Question 9:

Why doesn't Shelby Energy use a ballot in the upcoming elections in the mailing? Clark County's elections are run by a disinterested Provost who mails the ballot directly to the members and is in charge of keeping the ballot box until the votes are counted.

Response:

Approximately half of the cooperatives in Kentucky elect directors by mail and the other half elect them at the member meeting as does Shelby Energy. Of the approximate half, some use proxies and some do not. Election of directors by the members at the meeting is a longtime custom originating from the democratic nature of cooperatives. Our director elections have been patterned after our country's local, state and national elections which are not conducted by mail. And, of course, it is a lot cheaper.

Mail ballots handled by a disinterested Provost will be considered along with other options at the time the bylaws are reviewed and revisions taken under consideration.

## Member's Information Request

Dated: August 19, 2010

Shelby Energy's board has from time to time, in the past, discussed changing to a mail ballot system in order to potentially increase the number of members voting in the elections, but one of the reasons that the change has not occurred is the significant added cost to our members of a mail ballot system, estimated to run several thousands of dollars per election.

### Question 10:

When will the BOD vacancy be filled? Is there any consideration for membership input for naming a candidate(s)?

Response:

a.

The Board is reviewing the process for appointing a member of the Board when a retirement or resignation takes place prior to the end of a board of directors term. The Board has plans to fill the position no later than the second quarter of 2011.

The Board will regard any candidate that resides in the appropriate district and who submits their name

### Question 11:

Are there any other power resources besides East Ky Power Cooperative being considered for future wholesale energy purchases as advised by PSC?

Response:

The requirement in the past by Rural Utilities that each distribution cooperative, including Shelby Energy, sign long-term contracts agreeing to purchase all but 15% of their power from East Kentucky Power, and that those contracts be pledged to Rural Utilities as collateral for loans, is a significant legal hurdle to overcome any significant outside purchases until those contracts expire many years in the future, or even longer if Rural Utilities requires renewal of those contracts. PSC has been provided with copies of these contracts and mortgages. Shelby Energy Cooperative is participating in a process with all member cooperatives of East Kentucky Power that are reviewing other options and possibilities for the future.

**Member's Information Request**  
**Dated: August 19, 2010**

Question 12:

Why are more VICE PRESIDENTS being hired and no linemen? Management seems heavy at the top: "FOUR VP'S for less than 40 employees" With so few linemen that are working so many hours DOESN'T THIS CONSTITUTE A SAFETY ISSUE?

Response:

The cooperative will have three vice president positions rather than four as stated in the question. These positions are as follows:

Vice President of Engineering & Operations;  
Vice President of Customer Service & Marketing, and  
Vice President of Finance and Administration.

This revised organizational structure follows the PSC Management Audit recommendation and actually reduces the number of persons directly reporting to the CEO by one below the number recommended.

Shelby Energy hired four employees as Line Technicians (Linemen) in the operations area between late 2009 and early 2010. One of the four is no longer with the organization, but plans are to replace the position soon.

The cooperative has made tremendous advances in safety and continues to improve in this area. At no time is an employee asked to work in a situation that would place them in an unsafe position. Hours are reviewed and controlled by management employees along with the assistance from the actual employees performing the work. Only in emergency situations or extraordinary circumstances, which are few, would an employee be requested to work past the regular 16 hours-on and 8 hours-off schedule. As stated in our safety manual, should an employee find he/she is unable to work 18 hours due to safety reasons, accommodations will be arranged without a negative impact to the employee's work relationship with the Cooperative.

**Member's Information Request**  
**Dated: September 16, 2010**

Question 1:

Were four Shelby Energy staff members paid to play golf on Friday, August 27, 2010? Was this a local or an out of town event? What was the expense of this outing and how did this benefit the members customers in lowering our electrical bill?

Response:

The four employees who participated in the golf event on Friday, August 27, 2010 were paid their regular salary. Three of the four are salaried employees who receive a fixed paycheck no matter how many hours they work, including emergencies. The fourth employee did not work any extra hours. The event was sponsored by another utility company, held near Lexington and focused on economic development and key accounts. Shelby Energy paid \$100 to participate. This event helped our employees observe first-hand an outstanding system of strengthening relationships with key business accounts (who help keep rates low through large consumption). Finally, it helped build relationships with employees of other utilities, on whom we depend for backup during disasters.

Question 2:

Were the two companies selected for installing the AMI system based on a competitive bidding process?

Response:

Yes, bids to install the A1VII system meters were received from six companies. One company was selected to install the single phase meters, and another company was selected to install three phase meters. These selections were made based on safety, services and pricing.

Question 3:

Why was the \$264,000 grant for meter installation not accepted? Why was this money not used as a sample meter testing project?

## Member's Information Request

**Dated: September 16, 2010**

### Response:

Shelby Energy declined to participate in the Department of Energy Development and Independence (DEDI) project because we do not have staff resources to meet the grant's reporting, monitoring and tracking requirements. Although the \$264,000 looked like a financial windfall on its surface, it would have cost the Cooperative more than \$264,000 to meet these requirements.

Reporting requirements include fiscal, programmatic status, milestones, metrics and compliance to be filed monthly.

The fiscal reporting includes detailed invoices of current monthly expenditures, cumulative expenditures, personnel and payroll data, fringe benefits, travel, equipment, supplies, construction, indirect costs, funds obligation, cost status and program outlays. The programmatic status reports are required to be filed electronically and include scheduled milestones, anticipated completion dates and actual completion dates, changes in approach or aims and reasons for change, actual or anticipated problems, changes in key personnel, a discussion of what was accomplished during the reporting period such as major activities, significant results, major findings and conclusions, key outcomes or other achievements. A description of any product produced or technology transfer activities accomplished during the reporting period such as web site or internet sites that reflect results of the project, networks or collaborations, fostered technologies or techniques, inventions, publications, other products and infrastructure investment.

Milestone reporting is required to be submitted quarterly and includes the preparation of a case study to demonstrate findings and impact.

Metrics reporting must be submitted quarterly for emissions reductions measured in metric tons for carbon monoxide, greenhouse gases, nitrogen dioxide, particulate matter, sulfur dioxide and volatile organic compounds. Measurements of annual energy cost savings for electricity, fuel oil, gasoline, natural gas, propane along with consumption of each resource and impact to job creation or retention must be included.

To add the record keeping and reporting requirements associated with the DEDI project to current staff's duties and responsibilities would be a disservice to the employees and to our members. It would have been impossible to expect existing staff to meet the reporting, tracking and monitoring of this project and still perform their day-to-day functions needed to provide safe, reliable and quality service. We could have made the decision to hire a new full time employee to handle the project, but that person would lack the knowledge of our distribution system. It would be an added cost to members along with needed expertise from current employees. The cost of contracting with a consultant to handle the project over a period of a year or more would have equaled or exceeded the amount of the grant. In a cost versus benefit analysis, we could not justify accepting this grant.

**Member's Information Request**  
**Dated: September 16, 2010**

Question 4:

What are the consequences to the management and the Board of Directors due to the PSC rejecting your request to deviate from sample meter testing (Case No. 2010-00331) dated September 1, 2010. How much will this cost member/customers?

Response:

As explained to the members who attended the board meeting on September 16, 2010, because certain information desired by PSC was not included in the first request the deviation was initially denied. It was further shared with those at the meeting that the request had been re-submitted with the additional information. The revised deviation request was accepted as meeting the filing requirements by the PSC on September 15, 2010. A copy of the letter received by Shelby Energy in the afternoon mail on September 16, 2010 is attached and included as part of this response.

Question 5:

Are there any performance bonuses for all employees in the 2010 budget now that the rate increase has been approved and implemented?

Response:

There were no performance bonuses scheduled for employees in the 2010 budget and that has not changed based on the rate application and its approval by PSC.

Question 6:

Are rates going to increase by 4% to 5% for all key energy users effective January 1, 2011?

Response:

Based on a flow-through increase of approximately 4-5% from our power supplier, East Kentucky Power, rates will increase for all members of Shelby Energy. An announcement was placed in the June, 2010 issue of the Kentucky Living magazine communicating this information.

**Member's Information Request**  
**Dated: September 16, 2010**

Question 7:

Why is the Chairman of the Board paid \$8,000 while the other Board members are paid near double that amount?

Response:

As part of the response to Question 15 of the first set of inquiries on March 18, 2010, you were informed that benefits are provided that will attract and retain the most competent, diverse and well-qualified individuals available for the role of a board member and includes the Chairman as a single-coverage participant in the medical insurance plan.

Board participation is not a casual interest for those who are sincere about cooperative service. The Chairman is an established member of the board, has represented the cooperative by attending substantial training and educational programs over his years of service, is a Credentialed Cooperative Director (CCD) and has accumulated several hours toward a Board Leadership Certificate (BLC). Over the past few years, the Chairman has reduced participation in cooperative training, meetings and business. Chairman Busey has encouraged and supported others on the Board to increase time representing the cooperative while furthering their education and training as a board member.

Question 8:

Are all hourly paid employees allowed to get complimentary time in lieu of overtime pay?

Response:

No. Hourly employees who work overtime receive overtime pay at one and one-half times their regular hourly rate according to the requirements under the Fair Labor Standards Act. Under the wage and hour laws, any employee subject to overtime pay may not be paid in compensatory time off to avoid paying overtime.

Question 9:

Are credit cards used by some employees and Board members as a major way of purchasing office supplies, meals, gas and paying for hotel, travel and entertainment expenses?

**Member's Information Request**  
**Dated: September 16, 2010**

Response:

No. Board members do not have or use company credit cards, and cooperative records show no record of a director ever having access to company credit cards for any purpose.

Credit cards are used by cooperative employees for legitimate business expenses on behalf of the cooperative and, at various times, may include office supplies, meals and gas. However, credit cards are not the major source of covering such business expenses. As with most business organizations, supplies, fuel and other routine business items are purchased through established accounts with reputable vendors.

Should an employee be required to travel for training and continuing education, the use of a credit card is normally required. It is not safe for an employee to carry the necessary cash to cover travel expenses that include accommodations.

Shelby Energy doesn't cover entertainment expenses for employees. Should an employee participate in any type of entertainment, it is considered a personal expense and handled in such a manner.

The use of company credit cards are governed by policy and only legitimate business expenses are covered. Credit card statements must include itemized receipts that are reviewed by the departmental VP/Manager and CEO prior to payment.

Question 10:

Are all minutes of monthly Board of Director's meetings recorded and kept on file for future reference? Is there an archive file and, if so, where is it located? Can member customers view these records by submitting a written request for specific dates?

Response:

All minutes of Board meetings are recorded and kept on file. More recent minutes are stored on-site at the cooperative and older minutes are stored at an off-site location.

The Board members are willing to discuss any specific issues of interest, but is unable to provide open access to the minutes based on advice of counsel and the cost of having such minutes reviewed by an attorney to delete attorney-client information.

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## Shelby Energy answers its members

By Todd Martin

Shelby Energy Cooperative's board of directors met Thursday morning with a group of members who are concerned with how the co-op was spending money among other topics.

Customers are left tightening their belts as the country continues to suffer through a recession, but Shelby Energy is raising rates, renovating buildings and adding new technology.

On July 27 Shelby Energy received approval from the Kentucky Public Service Commission to raise rates to increase its annual revenue by \$1.9 million. It reported revenue in 2009 of nearly \$38 million.

The rate increase for a standard residential customer is about 2 percent, or about \$3 on a bill for an average customer using 1,522 kilowatt-hours per month, setting that monthly bill at about \$149.

The basic charge per customer also increased. The cost for regular customers went up nearly \$2 to \$9.75.

The basic cost for demand-control customers decreased about \$2.50 to the same rate of \$9.75, but it increased the cost of kilowatt-hours by about 12 percent. Demand-control customers are customers who have given Shelby Energy the right to control their energy consumption during peak hours, earning credits for scaling back.

A group of about eight showed to hear the board's answers to a list of questions that were submitted by customers on Aug. 19, some of which were addressed Wednesday in a letter published by The Sentinel-News.

Several out of the group questioned the timing of the repairs and the increase.

"In this economy, the timing of raising rates and spending money is not appropriate," said Carlen Pippin, the defacto speaker of the group.

Pippin was generally pleased with the responses after the meeting.

"It was good to see the questions and answers in writing," he said. "The whole idea was to get some transparency. This is our money they're spending, and we have right to weigh in on it."

However, not everyone was as pleased.

"I don't know if anything was accomplished," Irene Cornish said. "The answers were OK, but they just read them off the papers – they could've just mailed them to us.

"The main thing is the people of Kentucky and Shelby County aren't getting raises, so we don't need to be going overboard on our spending. They don't need to be spending more than Shelby County can afford."

Most of the questions addressed expenses and costs, along with the rate increase, including:

- The cost of the new Advanced Metering Infrastructure (AMI) or "smart meters," and why a Certificate of Public Convenience and Necessity was not filed.
- The practice of giving "gifts" to office employees at the end of the year in 2009.
- A \$1.1 million increase on the company's 990 form from 2008 to 2009.
- An office-remodeling budget that increased 173 percent over what was spent in 2009 and about 230 percent more than in 2008.

Other questions centered on the empty seat on the cooperative's board of directors and proxy votes used for election to the board.

The board and CEO Debbie Martin provided written explanations for each question to all those that attended

New meters

A purchase order was submitted earlier this year for the new AMI meters, and almost 4,700 of the roughly 15,000 needed have been received.

Single-phase meters ranged from about \$100 to \$132, with installation costs of about \$13. The industrial load meters cost \$450 and another \$118 to install.

Martin said the company hopes to have all the new meters installed by mid-January.

Pippin and the group asked why a test area wasn't selected, to see if the technology would work in Shelby County.

"The technology has been around for many years, and there is no question that it will work. It is already being used in several other areas across the country," Martin said.

Once all the new meters are installed, the company can end a contract with a meter-reading service that costs between \$14,000 and \$18,000 a month. Meter readers are not needed with the new meters, which communicate electronically with the office.

As to why a Certificate of Public Convenience and Necessity was not filed with the PSC, Martin said one wasn't required.

She said her staff was told none was needed, and, also, she said there is a long standing informal rule with the PSC that if the total project is 10 percent or less than the total plant value and money is not being borrowed, a certificate is not necessary.

With revenues of about \$38 million in 2009, the \$3.1 million project fell under that rule.

Gifts for employees

Another area of concern was the act of giving "gifts" to employees at the end of the 2009-year and whether that practice would continue.

"It doesn't appear that these were performance based," Pippin said.

Martin and the board responded with an explanation and said that perhaps gifts were not the best way to word it.

Union workers received two paid days off for rest after the ice storm last year, and non-union workers, who still had to come to the office and put in long days had received no extra benefit for the time worked, Martin said.

"We couldn't afford to split them up and not have them in the office for two days," she said. "So we rewarded them with the pay of seven hundred and fifth dollars for the extra work put in during that storm. Managers did not receive the payment."

So, Martin argued, though the payment did not seem, on the face, to be performance-based, it actually was. \*

\$1.1 million discrepancy on 990 form

The large increase on the 990 form, Martin said, was a simple mistake.

"You mean of all the people on this board and in this company that looked at this form, I'm the only one that caught that?" Pippin asked.

Said Martin: "We missed it."

"Well somebody didn't look at it," Pippin replied.

Building remodeling

Martin explained that Shelby Energy's building on Old Finchville Road is about 50 years old, and the co-op has gotten behind on upkeep.

Also the PSC recommended improvements to the dispatching station, including new equipment.

"This was done at less than the estimated cost of two hundred fifty thousand dollars from the PSC," Martin added.

When Shelby Energy started renovating the basement where the contractors go in and out, it was discovered that mold had infiltrated much of the basement. Also, numerous pieces of furniture had to be replaced because of wear and tear.

Proxy votes

Outside of cost and consumption, the group's other concern was with how members of the board are

elected. With one seat open, the board would get to pick the next member, and then with proxy voting it is nearly impossible to have a member changed.

Proxy voting allows for members who wish not to vote to give those votes to proxies who then vote in bulk.

Therefore, if a few hundred show up to the annual meeting, those voters could not out-vote the proxy.

"I don't think a true member of this co-op could come out and get elected," Pippin said. "Once they get the hundred names to get on the ballot, if only a few show up, it's nearly impossible. Is there any thought to changing the proxy voting system?"

The written explanation said only that the board considered changing the bylaws pertaining to the election system before the previous meeting but declined to.

Martin would only say "it is still under consideration, and will be looked into further."

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## What we think: Broad audit needed for Shelby Energy

There continues to be a very public and acrimonious spat between the management of Shelby Energy and some of its customers.

At the heart of these issues is a recently approved rate increase for the cooperative and what some of the members believe to be shoddy management, overspending and even danger.

Whether all the complaints against Shelby Energy – many of them delineated in a letter to the editor last week – are viable is not clear. Each side has its opinions, and each believes strongly in what it says.

A meeting last Thursday seemed to address many of those questions, with Shelby Energy President Debbie Martin standing and speaking directly to the issues, and customers appearing to appreciate her efforts if not her words.

All of this is very sensitive because the questions go not only to dollars and cents and how they are spent but also to history, safety and continuing issues with the entire cooperative system throughout the state.

Two years ago the state Public Service Commission required an audit of complaints about safety that produced stern words and strong directives of how Shelby Energy should respond.

Yet no matter what is done, there continue to be questions and a demand for answers, sometimes among the complainants themselves.

The recently published letter was "signed" by 11 families, but one withdrew his signature before publication and three of those families later said they had not signed the letter for publication.

Such entanglements are not constructive.

What is needed is a broad and sweeping audit by an independent investigator of every aspect of Shelby Energy. Each claim should be reviewed by this investigator, and a full, public report should be made to the PSC and to the members themselves.

We suggest that Ms. Martin should reinforce transparency by requesting such an audit.

The PSC should designate an investigator that is not part of its current structure and who is charged with providing a sweeping evaluation, much as a Congressional investigation might produce.

Failing those steps, we don't think this will be solved unless the courts are to become involved.

We believe citizens have the right and responsibility to keep watch over each other's best interests.

We just want the conversation to move along and some sort of mutually acceptable conclusion be reached.

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